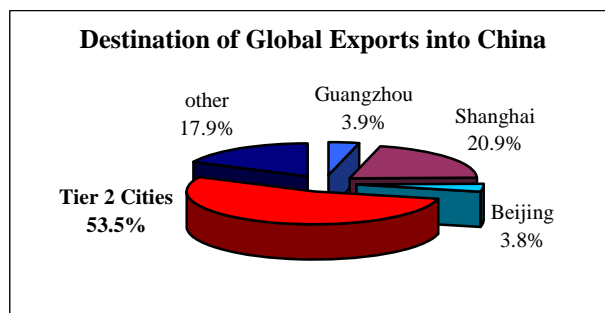


Thirteen of China's second-tier cities account for 8% of China's population but 53% of its total imports – which is why the untapped markets of China's emerging cities provide some of the most exciting and lucrative opportunities for U.S. exporters.

China's Real Economic Engine....

China's unprecedented growth and the opportunities it presents are no longer a secret to anyone in the business world. While megacities such as Beijing and Shanghai have long captured much of the spotlight, it is behind the scenes in second-tier cities where one can witness the *real* source of China's economic growth. Unlike what one might expect, the majority of China's imports are *not* ending up in Shanghai, Beijing, or Guangzhou. Rather, a select group of thirteen second-tier cities¹ account for an astonishing 53% of China's total imports, almost double the amount of the three megacities combined.

Local entrepreneurs in these emerging cities are not the only ones reaping the benefits. These cities have become importing havens and present lucrative opportunities, especially for US companies. Perhaps the critical question for American firms is not *whether* there is a second-tier city market, but *which* region is best for a particular industry or product.



Promising Markets in Emerging Cities

China automotive component market: China's automotive component market is estimated to be worth about \$46 billion (2006), with roughly similar levels of import and export, but with a different composition - exports are mostly low-technology products while imports are generally high-tech products or critical components. Imports of automotive components nearly tripled between 2002 and 2006, however the US has only a 5.4% share of total imports.

Besides the established Tier I markets, there are opportunities in rapidly growing tier-II cities such as, *Wuhan, Tianjin, Nanjing, Shenzhen, and Chongqing*, focus of this report. *Wuhan*, and *Tianjin* are the biggest production bases in China for car manufacturing. *Nanjing* is important for its proximity to *Shanghai* and several OEMs (*Ford* included) are planning new production plants. *Shenzhen* is an important market because of its proximity to the *Guangdong* production base. *Chongqing* has relatively large import volume and OEMs presence. Other emerging markets, not analyzed in this report, include *Qingdao, Dalian, and Hangzhou*.

The key customers of imported components are large OEMs (mostly foreign), which require parts with a higher level of technology. Tier 1 automotive component suppliers are also potential customers. OEMs' approach for supplier selection also differ, and can be classified into 4 categories: 1) relationship-driven, 2) technology-

¹ Harbin, Dalian, Qingdao, Tianjin, Xian, Wuhan, Hangzhou, Ningbo, Nanjing, Chongqing, Kunming, Zhuhai, Shenzhen, and Xiamen

driven, 3) market-driven, and 4) cost-driven. Best opportunities for US exporters are to serve American (*Ford, GM*) and selected Chinese OEMs (*Chery, Geely*).

Best prospects. Best prospects for US exporters are usually high-tech / critical components that Chinese manufacturers are not able to produce because of lack of technology or economies of scale. Examples include *automatic gearboxes, three-way catalytic devices, ABS, testing equipment* etc. Also good prospects for import are components that have safety and technological requirements. Other opportunities also exist in areas such as safety, fuel efficiency and environment. However, even if imports are still growing, the trend is toward localization and pure export strategy from US may be difficult to sustain in the long term.

Wuhan— Regional Hub in the Heart of China

Located at the crossroads of the Han and Yangtze rivers, Wuhan serves as the capital of Hubei province. Virtually equidistant from Guangzhou and Beijing, Wuhan is widely considered to be one of the most important industrial, financial, commercial and educational hubs central China.

Wuhan's main imports from the United States include machinery and electric products, medical instruments, and agricultural products. Industry in Wuhan centers on optic-electronic information, automobile and steel manufacturing, pharmaceuticals and biological engineering.

Opportunities in Wuhan:

Known as the “Detroit of China”, *Wuhan* accommodates a number of rapidly growing international auto manufacturers and suppliers. Its position, mid-way between *Shanghai* and *Chongqing*, plays a strategic role in the expansion plan of several automotive players targeting central China. *Wuhan* is the headquarters of *Dongfeng* auto, one of top five Chinese OEMs.

Wuhan is the 4th largest motor vehicles production base in China after *Shanghai, Changchun* and *Guangzhou* with a production value of \$7.6 billion in 2005. As the number of cars produced and sold in this area rises, the demand for automotive components is experiencing strong growth. *Wuhan* is also the third largest importer of automotive components (value of \$1 billion) among the emerging markets, accounting for 8.2% of total China imports, with CAGR of 53% in the last four years.

Wuhan Economic Indicators

City Population: 8.3 Million
Provincial GDP: USD 78.28 Billion
Annual Avg. Per Capita GDP: USD 4,541
Import Value: USD 3.92 Billion
Imports from US: USD 284 Million

Tianjin— China's next costal megacity

Located just 75 miles southeast of Beijing, Tianjin is China's third largest city and one of the fastest growing economies in the country. One of only four municipalities that are directly administered by the central government, Tianjin is being groomed by national planners to become one of the key industrial and distribution hubs of North-Central China. Tianjin lies at the crossroads of six national highways as well as seven expressways and is home to the sixth largest port in China.

Tianjin is the United States' fifth largest trading partner in China, and ranked by the World Bank as having one of the one of the top-twenty best investment climates for foreign firms in China.² The city's rapid growth has been accompanied by a dramatic increase in its demand for foreign goods—Tianjin's imports from numerous key industries have increased by

Tianjin Economic Indicators

City Population: 10.24 Million
Provincial GDP: USD 36 Billion
Annual Avg. Per Capita GDP: USD 3,812
Import Value: USD 44.95 Billion
Imports from US: USD 4.37 Billion

² See: World Bank Report— “Governance, Investment Climate and Harmonious Society: Competitiveness Enhancements for 120 Cities in China”; released October 8th 2006.

double-digit figures in recent years.³ The United States is Tianjin's third largest trading partner— 10% the city's imports originate in the U.S.

Opportunities in Tianjin:

With a population of 10.4 million, high GDP per capita and almost 700,000 motor vehicles on the road, *Tianjin* is an attractive market for OEMs and thus for US exporters of automotive components. The value of motor vehicle production in the municipality was \$3.5 billion in 2005. Best prospects are high-tech products: *automatic gears, high end brakes and servo brakes*; other good prospects are *steering wheels, columns and bodies, electric sunroofs*. *Tianjin* is the second largest importer of auto components amongst the emerging markets- total import of automotive components reached \$1.3 billion in 2006, representing a 10.7% share.

Nanjing— Southern Capital and Regional Hub

Located in the Yangtze river basin, Nanjing is the political, economic and cultural center of Jiangsu Province. Considered one of China's four great ancient capitals, modern Nanjing has emerged as eastern China's second largest commercial center. The city ranks seventh in overall competitiveness among Chinese cities and was recently ranked by Forbes magazine as being one of the top ten commercial cities in China. Nanjing's growing industrial sector has benefited from the city's abundance of natural resources and close proximity to Shanghai.

Nanjing Economic Indicators

City Population: **6 Million**

Provincial GDP: **USD 191 Billion**

Annual Avg. Per Capita GDP: **USD 6,449**

Import Value: **USD 100.4 Billion**

Imports from US: **USD 6.1 Billion**

Firms from the United States have historically fared well in Nanjing. Over a thousand American companies have operations in the city. In 2005, the U.S. ranked as Nanjing's second largest trading partner.

Opportunities in Nanjing:

Nanjing is located in East China, which plays a significant role in China's automotive industry - 44% of auto parts manufacturing is generated in this area. It is also an important market for US exporters due to the presence of the plants of *Ford* and other OEMs like *FIAT* in the area. Because of the economic advancement of *Nanjing* and *Jiangsu* province, car owners are generally more sophisticated and demand better quality in their vehicles and from their repair and maintenance providers. This creates opportunities for US exporters. Imports of automotive components in *Nanjing* saw strong growth rates over the past few years across most categories except for chassis. Overall imports rose by a CAGR of 35.5% between 2002 and 2006, reaching a value of \$445 million in 2006.

Shenzhen— A true economic miracle

Located in the southern Pearl River delta just across the border from Hong Kong's New Territories, Shenzhen has been one of the fastest growing cities in the world since its opening in the late 1970s. Once a small fishing village, Shenzhen is now the busiest port in China and the largest manufacturing base in the world. Shenzhen is a major center for foreign investment and trade— the bustling city imports more goods than *any* other city in China. Shenzhen was recently ranked by the World Bank as having the second best investment climate for foreign firms and third most effective local government in all of China.

³ This list includes: Construction equipment, electrical components, integrated circuits, machine tools, medical devices, oil & gas, packaging materials, security products and telecom goods.

Opportunities in Shenzhen:

Shenzhen is a potentially interesting market for US exporters, as a strategic location to serve Guangdong province, a major automotive production base. The potential for US exporters in *Shenzhen* is two-sided. On one hand, *Shenzhen* can be attractive for the potential of the regional market (*Guangdong* province) with many OEMs and high number of cars on the road. On the other hand, it is difficult for US exporters to serve Japanese OEMs, many of which are located in *Guangdong*, as they usually only purchase parts from Japanese suppliers. Imports of automotive components in *Shenzhen* grew at a CAGR of 12.8% between 2002 and 2006, reaching \$71.5 million in 2006. The pace of growth has been slower than the overall market which has been growing at 30.3% in the past four years.

Shenzhen *Economic Indicators*

City Population: **10 Million**
Provincial GDP: **USD 42 Billion**
Annual Avg. Per Capita GDP: **USD 7,620**
Import Value: **USD 119.5 Billion**
Imports from US: **USD 4.6 Billion**

Chongqing— The Gateway to Western China

Located on the edge of the Yungui Plateau, Chongqing lies at the intersection of the Jialing and Yangtze rivers. Chongqing has historically been a major inland port and an important channel for delivering goods from southwestern provinces to China's eastern coastal areas. One of only four municipalities that are directly administered by the central government, Chongqing is southwestern China's largest ground, water, and air transportation hub. The city serves as a major industrial center and is well endowed with a host of natural resources. As one of the chief beneficiaries of the central government's Western Development strategy, Chongqing is being groomed to help facilitate the development of inland China.

Chongqing *Economic Indicators*

Urban Population: **4.1 Million**
Municipal Population: **32 Million**
Provincial GDP: **USD 38.75 Billion**
Annual Avg. Per Capita GDP: **USD 4,569**
Import Value: **USD 44.95 Billion**
Imports from US: **USD 4.37 Billion**

Opportunities in Chongqing:

Chongqing already accounts for 5.2% of automotive components imports. It offers good potential for US exporters in that it is a large and increasing production base of OEMs, with a production value of \$4.3 billion in 2005. *Ford's* largest production plant, *Chang'an Ford*, is located in the city, which had an annual production of about 80,000 vehicles in 2006. In the following years, *Ford* is expected to raise production capacity up to 250,000 units in 2015. This represents significant opportunities for US exporters. In 2006, *Chongqing* imported \$640 million worth of automotive components, representing a 42% CAGR between 2002 and 2006.

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